REPORT ON THE MASTER THESIS

IEPS – International Economic and Political Studies, Faculty of Social Sciences, Charles University

Title of the thesis:	**The effect of the New Silk Road on EU-China trade**
Author of the thesis:	**Andreas Philipps**
Referee *(incl. titles)*:	**Doc. Ing. Vladimír Benáček, CSc.**

1) Theoretical background:

The thesis is based on the econometric estimation of past patterns of trade between China and the EU attempting at a quantified explanation how exports and imports were generated. Next, the previous results are used for the estimation of potentials of trade changes if the OBOR strategy is implemented. The theoretical models in both cases are well conceived, revealing quite original approaches to the prediction of trade due to policy-induced improvements.

Sections 2.3.1. - 2.3.4. draw extensively form various references on the design of GM. The author had to get acquainted with many different approaches and to conclude with a final specification. I praise his wide coverage in 2.3.4. (pp. 17-22).

Chapter 3 presents the theoretical core of the research, even though some sections are just extracts from various treatments of problematic aspects in the estimation of GM. Nonetheless, Mr Philipps treats quite professionally such topics.

2) Contribution:

Chapter 2.1. presents a well-documented review of world literature over the plans and shortcomings of OBOR. The critical assessment is complemented in chapter 7 that assesses the future of economic contacts between China and the EU, where a wider scope of arguments (then those considered in the gravity model) are considered.

Hypotheses H1, H2 and H3 (p. 32) would require more comments about why one should expect that the direction of trade (to China versus from China) will cause an asymmetry in changes of potentials. H3 seems to be just an extension of H1.

Table 4 with the OLS and PPML estimators has one problem: the coefficients are not directly compatible and thus are difficult to compare. While OLS works with the dependent variable (trade) under LOGs, the PPML does not. The former leads to 6 coefficients interpreted as elasticities, while the latter does NOT. I consider this to be an insufficiently described aspect of your estimates.

In Table 4 there is also present a weird behaviour of the Landlocked variable, increasing the trade. Also I had a bit of problem in believing that the coefficient of Colony 0.699 could increase the trade by 101.2% while the coefficient of QPI 0.283 could boost the trade by 28%, while both indicators were increased by one unit. (Maybe, I have not understood your computation properly. Sorry in that case ! VB.)

3) Methods:

Page 9: Compared relative changes of imports and exports should use the same metric, otherwise the reader could become confused.

The author mentioned on p. 14 that "the β´s are the coefficients of interest". That is rather imprecise since these coefficients are elasticities.

The indicator of “trade potential” (see p. 29) could be related the "theoretical values" computed by the model. Your "differences" show then how the real trade achieves surplus or deficit relative to the theoretical values. Nevertheless, the logic of your estimation of impacts of infrastructure improvement on trade on pp. 29-30 is correct.

Table 2 (with the correlation matrix) comes out of blue and remains without comments even though it shows a bias to multicollinearity in FTS, FBS and AT.

Remark to pp. 29 and 37: In simulating the OBOR, have you increased (by 10%) the trade facilitation variables to OBOR members only or to all European countries? How do you know who is the OBOR member

and who is not? I just wonder if the distinction between the membership in OBOR has a meaning. Is OBOR not a public good where the benefits of improved infrastructure are shared by all neighbours? I.e. they are shared also by those who are not members of the OBOR. Do not you agree that OBOR is not a trade policy block subject to excludability?

The comparison of predicted values of trade without and with OBOR is the most interesting (and innovative) part of the thesis. The results are quite surprising by showing that the main beneficiaries come from the 16+1 "initiative". The trust in the correctness of your inter-country trade-off effect built into the estimates is crucial for the viability of your study. It would deserve a more extensive explanation.

4) Literature:
The extensive literature covers the main titles and Mr Philipps succeeded in finding quite up-to-date titles.

5) Manuscript form:
On p. 9 there are repetitions of the same findings. Some parts of the thesis raise impression that the author finished the thesis in hurry without careful re-reading of the text. The whole thesis suffers of too many typos – a simple spell-check could solve quite a number of cases.

It would be a good service to the reader if some less intuitively named variables (as TCX, QPI, BCP ...) had another column added to the Table 4 for a verbal description.

Chapter 2.2. is full of useful data about trade between the EU and China presented verbally. It would be more efficient to present the findings in tables or graphs with values and/or percentages.

THE BOTTOM LINE:
The conclusions from this paper are significantly counter-intuitive and therefore potentially very interesting. If the estimation of the model were not biased (i.e. if the estimation of potentials were correct), then the results would be highly original and worth publishing in some journal. But I would recommend first that the estimation is cross-checked for validity. In case the present results are robust and the author decides to publish his research I would recommend to devote high attention to details in formulating the model and discriminating between the OLS and PPML. I am still not sure if the estimation was free of multicollinearity. Some further tests should be applied in order to gain credibility.

Sugested questions for the defence are:
Please explain to the commission why could large countries loose on their export potential when the infrastructure from China to whole Europe will improve. How come that small countries could "steal" trade from those who are much bigger, while the small ones must have also a much smaller value of trade with China.

I recommend the thesis for final defence. I recommend the following grade: "2" (good).

SUMMARY OF POINTS AWARDED *(for details, see below):*

CATEGORY	**POINTS**
Theoretical background (max. 20)	17
Contribution (max. 20)	18
Methods (max. 20)	14
Literature (max. 20)	20
Manuscript form (max. 20)	11
TOTAL POINTS *(max. 100)*	**80**
The proposed grade (1-2-3-4)	**2 (1.6 actually)**

You can use the decimal point (e.g. giving the grade of 2.4 for 61 points).

DATE OF EVALUATION: 2 Sept 2017

Vladimir Benacek

Referee Signature

Overall grading scheme at FSV UK:

TOTAL POINTS	**GRADE**	Czech grading	US grading
81 – 100	**1**	= excellent	= A
61 – 80	**2**	= good	= B
51 – 60	**3**	= satisfactory	= C
41 – 50	**3**	= satisfactory at a margin of failure	= D a marginal passing grade
0 – 40	**4**	= failing is recommended	= non-defendable

The referee should give comments to the following requirements:

1) THEORETICAL BACKGROUND: *Can you recognize that the thesis was guided by some* ***theoretical fundamentals*** *relevant for this thesis topic? Were some important theoretical concepts* ***omitted****? Was the theory used in the thesis consistently* ***incorporated with the topic*** *and hypotheses tested? Has the author demonstrated a genuine* ***understanding*** *of the theories addressed?*

Strong *Average* *Weak*
20 *12* *< 8* *points*

2) CONTRIBUTION: *Evaluate if the author presents* ***original ideas*** *on the topic and aims at demonstrating* ***critical thinking*** *and ability to draw* ***conclusions*** *based on the knowledge of relevant theory and relevant empirical material. Is there a distinct* ***value added*** *of the thesis (relative to knowledge of a university-educated person interested in given topic)? Did the author explain* ***why*** *the observed phenomena occurred? Were the* ***policy implications*** *well founded?*

Strong *Average* *Weak*
20 *12* *< 8* *points*

3) METHODS: *Are the* ***hypotheses*** *for this study clearly stated, allowing their further* ***verification and testing****? Are the theoretical explanations, empirical material and* ***analytical tools*** *used in the thesis relevant to the research question being investigated, and adequate to the aspiration level of the study? Is the thesis* ***topic comprehensively analyzed*** *and does the thesis not make trivial or* ***irrelevant detours*** *off the main body stated in the thesis proposal? More than 12 points signal an exceptional work,* ***which requires your explanation "why" it is so****).*

Strong *Average* *Weak*
20 *12* *< 8* *points*

4) LITERATURE REVIEW: *The thesis demonstrates author's full understanding and* ***command of recent literature****. The author* ***quotes*** *relevant literature in a* ***proper way*** *and disposes with a* ***representative bibliography****. (Remarks: references to Wikipedia, websites and newspaper articles are a sign of* ***poor research****. If they dominate you cannot give more than 8 points. References to books published by prestigious publishers and articles in renowned journals give much better impression. Any sort of* ***plagiarism*** *disqualifies the thesis from admission to defence.)*

Strong *Average* *Weak*
20 *12* *< 8* *points*

5) MANUSCRIPT FORM: *The thesis is* ***clear and well structured****. The author uses appropriate* ***language and style****, including the academic* ***format for quotations****, graphs and tables. The text effectively refers to graphs and tables, is easily readable and* ***stimulates thinking.*** *The text is free from typos and easy to comprehend.*

Strong *Average* *Weak*
20 *12* *< 8* *points*